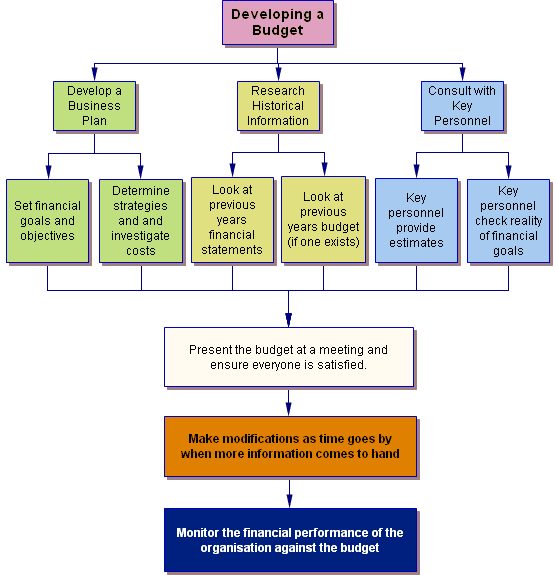
**How to develop a budget**

The following diagram illustrates the three main methods for obtaining the information required to develop a budget.

* The [business plan](http://www.leoisaac.com/budget/bud033.htm#BusinessPlan)
* [Historical information](http://www.leoisaac.com/budget/bud033.htm#HistoricalInformation) from the organisation's accounting system
* The [knowledge of key personnel](http://www.leoisaac.com/budget/bud033.htm#KnowledgeKeyPersonnel) in the organisation



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**The Business Plan**

The key components of a business plan are:

* The [strategic plan](http://www.leoisaac.com/planning/index.htm) that provides an overview of the organisation's goals and objectives
* The [operational plan](http://www.leoisaac.com/operations/top025.htm) that details the work that must be done to pursue the organisation's goals and objectives.
* The [financial plan or budget](http://www.leoisaac.com/budget/bud031.htm) that provides an estimate of how the organisation will perform financially as the operational plan is implemented.

**Historical Information for Budgeting**

Unless the organisation is in its first year of existence, the audited financial accounts provide a wealth of information about how the organisation performs financially. For example, the financial [accounting](http://www.leoisaac.com/fin/fin003.htm) system can provide detailed information on:

* Sales and other sources of income
* [Gross profit](http://www.leoisaac.com/fin/fin040.htm) margins
* Overheads such as electricity, rates, maintenance, salaries, office costs, etc
* Loan repayments

**Knowledge of Key Personnel**

It is probably a fairly dangerous prospect for one person to attempt to develop a budget for an organisation on their own. A much wiser strategy is to involve a team of people, each of whom is given the task to provide estimates of revenues (if any) and costs for a section or department of the organisation for which they have responsibility. It is likely that such individuals will be able to provide reasonably accurate forecasts of income and expenditure. However, they will also present a "wish list" which those in charge of the budgeting process will need to examine for financial feasibility.

The involvement of many people in the budgeting process greatly adds to how long it takes to produce a budget that is accepted by persons involved. From start to finish, it is necessary to allow a month in small organisations and three months in larger organisations.

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